



# Objectives and Approach

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The business case presents the business benefits of the recommended alternative.

## ■ Objectives

- To outline the business benefits of implementing centralized, commercial software for finance, human resources and asset management at the State of Montana.

## ■ Approach

Our approach to the business case is to consider several different possible areas of business benefits to the State, including:

- Client Service Benefits
- Agency Management Benefits
- State Management Benefits
- Risk Management Benefits
- Economic Benefits



# Assumptions

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Several assumptions have been made in the preparation of the business case.

## ■ Full Recovery Over Amortization Period

- ⇒ we assume that MT PRIME must pay for itself through cost avoidance and process improvements over the period of amortization

## ■ Amortization Period

- ⇒ we have chosen a period of 10 years as a reasonable length of time for the amortization of project expenditures

## ■ Time Value of Money

- ⇒ we use 6% as the financing interest rate for the State
- ⇒ this interest rate includes inflation

## ■ Contingency

- ⇒ the comparative cost of implementing a centralized software package is \$15.5 Million
- ⇒ approximately \$500,000 of contingency has been added for the purposes of conservative estimates in this business case

These assumptions are particularly important for the calculation of the economic benefits of the system.



# Client Service Benefits

The recommended alternative will improve service levels to the state's citizen customers.

## ■ Citizen customers will be able to access information directly

- direct access to financial information by stakeholders  
e.g. "What is the state of my payment?...my bid?...my request?"
- accurate and timely information available to citizen groups  
e.g. "How much did the state spend on education in Lewis and Clark county?" "What percent of state employees are Native American?" "How many in-state vendors bid on that contract?"
- easier, faster response to ad hoc citizen queries
- direct access to human resource opportunities at the State  
e.g. Citizens could directly find out, "What employment opportunities are available at the state? What qualifications are needed for that position?"
- moves citizens one step closer to "one-stop-shopping" for government services
  - ⇒ integrated systems and databases
  - ⇒ single point of interaction at a single point in time

Citizens will directly benefit from the new systems to the extent that they want information about finances, spending, human resources and employment at the State.

## ■ Service to legislative customers will improve

- easier, faster response to legislative queries
- more flexible reporting for ad hoc queries

## ■ Service to state employees will improve

- prompt, accurate processing of financial transactions
  - ⇒ payroll, reports on payroll
  - ⇒ changes in payroll information
- prompt, accurate self-accessible human resources services
  - ⇒ quick, simple one-stop service for changes in information

## ■ Capacities for existing services will expand

- additional systems capacity in anticipation of state growth creating additional transactional volume
- offering the present suite of services to more people with no incremental increase in system operational costs



# Agency Management Benefits

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The recommended alternative will address the business needs of the agencies by providing them with the information they need to manage their businesses.

## ■ Performance Management

- increased ability to implement performance management through systems support

## ■ Cost Accounting

- increased ability to control costs through system supported cost accounting processes

## ■ Increased Accountability

- agencies to the legislators
- agencies to customers and stakeholders
- employees to management

## ■ Fewer Agency-specific Accounting Systems

- Reduced effort and spending by agencies on developing in-house accounting, costing and budgeting systems

## ■ Improved Revenue Management

- improved revenue collection will be vital in light of reduced federal funding

## ■ Alternate Service Delivery

- increased ability to decentralize certain services as required

## ■ Improved Workforce Management

- increased ability to manage changing workforce structures (contingent workforce, part time, contract)

## ■ Integration and Automation

- open systems enable agencies to integrate their operational systems towards automated central reports

Citizen customers will benefit from the new systems as agencies are able to offer services more efficiently and effectively through the improved management information.



# State Management Benefits

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The recommended alternative will improve the State's central management operations as well as agency operations.

## ■ State-Level Analysis

- increased ability to perform state-wide analyses
- increased ability to obtain management information directly from centralized systems

## ■ State-level Finance

- enhanced ability to manage the state's finances at a macroscopic level:
  - ⇒ improved cash management
  - ⇒ improved receivables
  - ⇒ improved payables
- increased opportunities for fiscal managers and analysts to focus on analysis and management

## ■ Reduced Redundancy

- reduction of duplicative effort on processes common to several agencies
- reduction in duplicative information, databases and their maintenance

## ■ Optimized State-wide Procurement

- vendor relationships to automate and optimize procurement

## ■ Inter-agency Skills Transfer

- knowledge and skill base for administrative employees would be highly transferable between agencies

Taking an enterprise view of the state will improve processes that cut across agencies, reduce duplicative effort and help share common information resources.



# Risk Management Benefits

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Implementing the recommended alternative helps the State manage various risks.

## ■ Technology Obsolescence

- reduced risk of state technology becoming unsupported, irreplaceable, and unmaintainable
- reduced risk of being unable to find development personnel skilled in the obsolete technology for the purposes of maintenance, development and upgrades
- reduced risk of being forced into an unplanned, forced upgrade expenditure

## ■ Agency Autonomy

- reduced risk of disabling centralized reporting through increased use and dependence on agency accounting systems that are being developed in-house

## ■ Potentially Undetected Fraud

- increased ability to detect and prevent fraudulent activity if it was occurring
- increased ability to prove fraudulent activity in preparation for litigation



# Economic Benefits

Between 600 and 650 state FTEs are currently assigned to administrative positions in finance, human resources, and asset management.

Finance FTEs:	359
Human Resources FTEs:	185
Asset Management FTEs:	<u>94</u>
TOTAL FTEs:	638
Average State Employee Salary:	\$ 25,000
Additional 17% for Non-salary Costs:	\$ 4,250
Additional 10% for Health Insurance:	<u>\$ 2,500</u>
TOTAL FTE COST:	<u><u>\$ 31,750</u></u>
Personnel Costs for Finance, HR & Assets:	\$ 20,200,000

	<u>Annual</u>
Present Value of MT PRIME (Millions)	\$16.0
Future Value of MT PRIME	\$0
Period (years)	10
Interest Rate	<u>6%</u>
Payment per Year (Millions):	<u><u>\$2.17</u></u>
% of PERSONNEL COSTS:	11%

Payment per Year (Millions):	\$2.17
Total FTE Cost:	<u>\$31,750</u>
EQUIVALENT FTEs:	68

To recover the costs of MT PRIME, the State would have to reduce administrative budgets for personnel by 11%, which is equivalent to 68 FTEs, commencing in the 2001 biennium.



# Economic Benefits:

## COST AVOIDANCE

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One source of savings that would be achieved is to avoid certain costs of the existing systems. SJR 23 has investigated the number of core-related systems:

- Avoiding the costs of agencies redundantly maintaining core information
  - 74 agency systems redundantly manage core information
- Avoiding the maintenance of integrated links between SBAS and agency applications
  - SJR 23 identified 111 agency applications related to SBAS
  - Costs cannot be accurately computed without extensive research
    - ⇒ SJR 23 could not gather complete cost data on agency systems related to core systems
    - ⇒ development costs for the seven core systems totaled \$7.5 Million
    - ⇒ operating cost data for the seven core systems totaled \$150,000
- Avoiding the Year 2000 systems enhancement costs
  - ISD estimates these costs for the seven core systems to be in excess of \$1 Million
  - there are no estimates for Year 2000 enhancements to the 119 agency systems however, these costs could range as high as \$3 Million
  - many of these systems would be replaced by MT PRIME





# Economic Benefits: COST AVOIDANCE

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- Avoiding supplementary systems development and maintenance to fill functionality needs not met by the core systems
  - 119 systems exist to compensate for lacking functionality in the core systems
  - these systems range from SBAS information re-keyed into Lotus Spreadsheets to full-blown agency-developed accounting systems electronically linked to SBAS
  - several agencies have plans to re-develop these supplementary systems on an Oracle database if the state systems renewal does not meet agency needs
  - assume 25% of these systems (30 systems) are reasonably complex, with development costs ranging from \$50,000 to \$300,000
    - ⇒ a minimum of \$50,000 for a custom built application based on prevailing local rates for a systems integrator at \$75/hour for 16 weeks
    - ⇒ a maximum of \$300,000 based on a recent project experience
  - development costs of these 30 systems could range from \$1.5 Million to \$ 9 Million

Significant costs could be avoided by proactively addressing system functionality.



# Economic Benefits: PROCESS IMPROVEMENT OPPORTUNITIES

The new system will drive improvements in the majority of the areas identified.

## ■ Identified Process Improvement Opportunities

### ➤ Financial Process Improvements

- ⇒ Integrate Accounts Payable, Procurement and Asset Management Processes
- ⇒ Develop Improved Operational System Interfaces
- ⇒ Centralize Accounts Receivables Processing
- ⇒ Centralize Grants Processing
- ⇒ Reengineer Budget Process
- ⇒ Develop Costing Strategy and Tools
- ⇒ Extend PAMS functionality
- ⇒ Develop Improved Benefits System Interface
- ⇒ Develop Electronic Time-sheet Entry
- ⇒ Determine Customer Reporting Requirements
- ⇒ Develop Statewide Strategy

*Revenue collection is presently being investigated*

### ➤ Human Resource Process Improvements

- ⇒ Develop Specialty HR Services
- ⇒ Develop and Implement HR Planning Strategy
- ⇒ Develop and Implement Employee Development Strategy
- ⇒ Develop Training Curriculum
- ⇒ Develop Training Tracking Mechanism
- ⇒ Develop and Implement Performance Management Strategy
- ⇒ Develop Leadership Management Strategy
- ⇒ Develop and Implement Compensation Strategy

### ➤ Asset Management Process Improvements

- ⇒ Reengineer Accounts Payable, Procurement and Asset Management Processes
- ⇒ Outsource Warehousing
- ⇒ Outsource Facilities and Equipment Maintenance

Although it is impossible to precisely estimate the savings available from improving all these processes, it is reasonable to estimate that some opportunities will produce savings.

# EVIDENCE OF PROCESS OPPORTUNITIES

Consider the findings from the Revenue Project, a study of one of the twenty-two process improvement opportunities listed

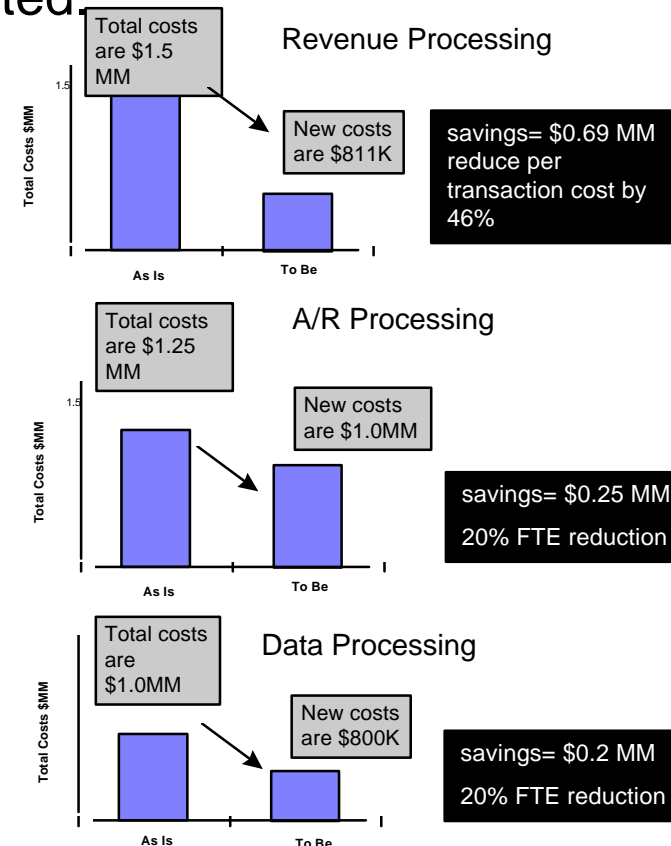
## ■ e.g. The Revenue Project

- Statewide process
- Presently implemented in different ways and on different scales in several different agencies
- 55 FTEs are presently involved in revenue collection at the State

## ■ Expected Savings Through Process Improvement

- Revenue Processing: \$0.69 Million
- Accounts Receivable Processing: \$0.25 Million
- Data Processing: \$0.2 Million

## ■ Total Minimum Expected Annual Savings: \$1.14 Million



It is reasonable to project that some other parts of the financial, human resource and asset management processes will yield similar improvements.